

## Message Text

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ACTION ARA-10

INFO OCT-01 SS-14 ISO-00 EB-03 NSC-10 NSCE-00 CIAE-00

INR-10 NSAE-00 RSC-01 PRS-01 TRSE-00 L-02 INT-01

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P 282141Z SEP 73

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 7237

C O N F I D E N T I A L LIMA 7220

LIMDIS

E.O. 11652: GDS

TAGS: BDIS, EMIN, EIND, PE

SUBJECT: PROBABLE GOP EXPROPRIATION OF CERRO

REF: LIMA 7171, LIMA 7130

1. SUMMARY: EMBASSY BELIEVES IT LIKELY THAT GOP WILL EXPROPRIATE CERRO IN NEAR FUTURE AND UNDERSTANDS COUNCIL OF MINISTERS MADE DECISION TO DO SO SEPTEMBER 25 AND MAY ANNOUNCE SEIZURE ON OCTOBER 3, FIFTH ANNIVERSARY OF MILGOV "GOLPE." ALTHOUGH PUBLIC STATEMENTS BY GOP OFFICIALS AND OTHER ACTIONS HAVE NOT COMPLETELY CLOSED DOOR ON CERRO ISSUE, ON BALANCE IT APPEARS LIKELY THAT THERE ARE FEW REAL COUNTER-PRESSURES FOR FORESTALLING SUCH GOP DECISION. END SUMMARY.

2. EMBASSY HAS LEARNED FROM VERY RELIABLE SOURCE WHO HAS GOOD CONTACTS INSIDE COUNCIL OF MINISTERS THAT COUNCIL, AT ITS WEEKLY MEETING ON TUESDAY, SEPTEMBER 25, MADE DECISION TO EXPROPRIATE CERRO DE PASCO CORPORATION ASSETS IN VERY NEAR FUTURE. ACCORDING SOURCE, TIMING OF EXPROPRIATION MAY COINCIDE WITH ANNIVERSARY OF "GOLPE" FIVE YEARS AGO; PERUVIAN ARMED FORCES AND GOP MIGHT ACTUALLY TAKE OVER CERRO OCTOBER 2 AND ANNOUNCE EXPROPRIATION PUBLICLY ON OCTOBER 3. LOCAL CERRO MANAGEMENT, WHICH HAS HEARD SAME STORY, PUTS MUCH CREDENCE  
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IN IT AND EXPECTS BE OUT OF BUSINESS SHORTLY.

3. NOTWITHSTANDING FOREGOING, GOP PUBLIC POSITION ON CERRO CONTINUES MILITANT, BUT LESS BOMBASTIC AND EMOTIONAL THAN MIGHT HAVE BEEN EXPECTED AND CAREFULLY READING OF STATEMENTS OF ALL RANKING GOP SPOKESMAN DOES INDICATE THAT DOOR TO A POSSIBLE RESUMPTION OF NEGOTIATIONS HAS NOT BEEN FIRMLY CLOSED. SPEAKING AT LONG-SCHEDULED MEETING OF AMERICAN CHAMBER OF COMMERCE SEPTEMBER 27, NORMALLY MILITANT MINMINES FERNANDEZ MALDONADO MADE NO MENTION OF CERRO ISSUE IN PREPARED TEXT EXTOLLING WHAT HE DESCRIBED AS BRIGHT FUTURE FOR DEVELOPMENT OF MINES, PETROLEUM AND ENERGY RESOURCES IN COUNTRY (BEING REPORTED SEPTTEL). IN QUESTION AND ANSWER SESSION FERNANDEZ MALDONADO TURNED ASIDE QUESTION ABOUT POSSIBILITY OF REOPENING NEGOTIATIONS WITH CERRO, WITH WHAT FOR HIM WAS UNUSUALLY MODERATE REPLY, THAT THERE ARE NOW NO NEGOTIATIONS UNDERWAY AND THAT CERRO HAD MADE UNILATERAL DECISION TO WITHDRAW. IN ADDITION, GOP-CONTROLLED CTRP UNION HAS PUBLISHED BROADSIDE CRITICIZING CERRO BUT STOPPED SHORT OF CALLING FOR OUTRIGHT EXPROPRIATION WITHOUT COMPENSATION.

4. A DIFFERENT VIEW OF SITUATION IS THAT OF RANKING OFFICIAL OF BANCO MINERO WHO OPINED TO EMBOFF TODAY THAT RATHER THAN PLAYING INTO CERRO'S HANDS AND SERIOUSLY INJURING PERU'S INTERNATIONAL CREDIT RATING BY OUTRIGHT EXPROPRIATION, GOVERNMENT WOULD MOVE SLOWLY TO ASPHYXIATE CERRO BY CUTTING OFF SOURCE OF SUPPLY, CREDIT AND STIRRING UP LABOR TROUBLES, ETC. HE SAID GOP ANGRY ABOUT CERRO'S CHARGE OF GOP "BAD FAITH" IN NEGOTIATIONS BUT IN THIS CASE WOULD NOT LET EMOTIONS OVERTAKE MORE IMPORTANT NATIONAL ECONOMIC INTERESTS.

5. IN REGARD TO PRESIDENT VELASCO'S PRESS STATEMENT SEPTEMBER 26 (SEE LIMA 7171), EMBASSY HAS OBTAINED FULL TRANSCRIPT OF PRESS CONFERENCE. WITH REGARD TO CERRO, THE OFFICIALLY PUBLISHED TEXT WHICH HAS BEEN EDITED TO EXCLUDE THE PRESIDENT'S REPLY TO QUESTION ABOUT RESUMING NEGOTIATIONS WITH CERRO; THE TAPE REVEALS THE PRESIDENT SAID THAT "IT IS POSSIBLE" THAT NEGOTIATIONS COULD BE RESUMED.

6. COMMENT: WE BELIEVE THE EXCEEDINGLY ILL-TIMED CERRO ANNOUNCEMENT HAS GALVANIZED MOST OF THE RADICALS  
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AND EVEN SOME OF THE MODERATES WITHIN THE CABINET SO THAT THE PRESSURES ON VELASCO TO EXPROPRIATE ARE ALMOST INSURMOUNTABLE. ON THE OTHER HAND, IT DOES APPEAR THAT THE GOP IS HESITATING BEFORE TAKING THE PLUNGE AND THAT THEY WISH REDUCE AMOUNT OF DAMAGE TO THEIR INTERNATIONAL CREDIT RATING AS MUCH AS POSSIBLE BEFORE DOING SO. WE DO NOT THINK AN "ASPHYXIATION" POLICY, RATHER THAN OUTRIGHT SEIZURE, IS LIKELY SINCE SUCH A POLICY WOULD IN THE FIRST INSTANCE BE UNDULY VISIBLE TO THE

OUTSIDE WORLD, AND WOULD CAUSE SERIOUS DAMAGE TO PERU'S  
MINERAL EXPORTS. SINCE CERRO HAS ACCOUNTED IN RECENT YEARS FOR  
APPROXIMATELY ONE-THIRD OF THE COUNTRY'S MINERAL EXPORTS AND  
APPROXIMATELY 15 PERCENT OF THE TOTAL FOREIGN EXCHANGE EARNINGS, WE  
DOUBT GOP WOULD BE WILLING TO ACCEPT SUCH A HIGH ECONOMIC  
COST, NOT TO MENTION FACT IT WOULD RUN AGAINST THE EMOTIONS  
WHICH HAVE BEEN GENERATED BY THE ACTIONS CERRO HAS TAKEN.  
UNDOUBTEDLY EXPROPRIATION ACTION MIGHT BE ACCOMPANIED BY AN  
ANNOUNCEMENT THAT SOME PAYMENT WILL BE MADE, BASED ON A GOP  
EVALUATION OF CERRO'S ASSETS IN PERU.  
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